



Our Mission

- To develop new and innovative practices for acquiring and selling businesses
 - To protect client interests
- To champion the level of services the small and mid-size business owner deserves and should receive

VR Has Sold More Businesses In The World Than Anyone.®

Each Office Is Independently Owned And Operated. VR ©2008-2012

SELLING YOUR BUSINESS IS OUR BUSINESS. OUR ONLY BUSINESS.

For over 30-years, VR has set the standards by which the sale of small-and mid-market businesses have transferred.

- VR fills the void for quality service that exists between the real estate and investment banking industries for small and mid sized businesses.
- VR provides the most extensive training program in the world for it's full-time professional Intermediaries through its exclusive Master Business Intermediary Academy (MBIA)[®].
- VR maintains the largest international database of sold businesses to assist in successfully valuing your business.

VR is the
Number One
Professional
Business
Intermediary Firm
in the World.

When you engage VR to sell your business, you're in good company. Just ask the hundreds of thousands of VR firm clients who have successfully bought or sold a business using Valued Representation provided by VR.

Valued Representation – It's the meaning behind our name. It is the service we provide to all our clients.

Very Responsive – to you and your willingness to sell your business.

Valuable Resource – we know how to attract and qualify buyers who are ready, willing and able to acquire your business.

Vitally Respected – qualified business buyers around the world know that VR is the leader when it comes to small-and mid-market business sales.

VR's commitment to constantly improve its business model has led to the creation of several divisions designed to meet the rapidly changing needs of its business clients around the world:

VR Mergers & Acquisitions[®]

Provides privately owned and closely held mid-market companies with specialized Intermediary business services and representation throughout the merger, acquisition and divestiture process.

VR Franchise Showcase[®]

Works diligently with other respected franchisees as advocates providing a comprehensive consultative approach to aid in the growth of their franchise networks through new franchise growth. VR also prides itself on providing resale services to its franchisor affiliates and creating value for their franchisees.

VR Master Business Intermediary Academy[®]

Gives our business Intermediaries the finest in-house training and the highest quality tools to be successful. From the classroom to the marketplace, ongoing continual training is vital to the Company's success.

VR prides itself in providing the same level of service and professional resources to each and every client no matter the size, and continues to be the leading force within the profession as it moves into the future.



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VALUED REPRESENTATION

It's who we are; It's what we deliver

The entrepreneurial boom has changed the face of business. As this movement continues to surge forward, VR Business Sales and VR Mergers & Acquisitions remain at the forefront with Valued Representation. Everyday, more and more business buyers and sellers demand our proven skills and resources to help them succeed in an increasingly complex market.

In 1979, VR set out to revolutionize the way businesses change hands. Today, we are the innovative leader in the sale

of privately held companies. With diligence and expertise, a commitment to our clients and unsurpassed professionalism, we are proud that "VR has sold more businesses in the world than anyone."[®]

The strength of the VR organization is its people. We are the only network of fulltime professional business intermediaries in the world. Consequently, we have proven our value to business clients across the country and around the globe.

Every day, sellers choose VR for the following reasons:

- **Confidentiality** – Most sellers do not want anyone to know their business is for sale. Our methodology creates qualified buyers and protects those sellers whose business could be impacted should their customers, employees, suppliers or competitors learn their business is for sale.
- **Advertising & Marketing** – Businesses are marketed with the utmost professionalism through our Web site, vrbb.com, which showcases VR-represented businesses to thousands of buyers domestically and internationally. VR-represented businesses can also be found on the top independent "business for sale" Web sites. Additional buyers are attracted from local and regional advertising along with the VR Buyer Tracking System.
- **Professionalism** – VR manages the details of the transaction, freeing you to operate your business without distraction. When you work with VR, you can rest assured that your business transfer is being handled professionally and competently.

Every day, buyers choose VR for the following reasons:

- Providing access to a wide inventory of businesses for sale
- Matching buyers' interests, goals and desires with the right business
- Structuring the transaction using our expertise and know-how
- Managing the transaction through closing
- Identifying financing options

So, whether you're selling a business or buying one, seek Valued Representation through a VR professional.



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BUSINESS CATEGORIES

Where your company fits in.

Knowing where your company fits into the world of business is a must if you want to understand the dynamics of selling it. The rules that govern the sale of public companies like Ford, Microsoft or General Electric are radically different from the rules that control the sale

of private companies. Successful business sales are dependent upon managed expectations for both the seller and the buyer. This brief overview is designed to help you understand the rules that control the sale of the three major categories of businesses.

Publically Traded – These are the companies traded on stock exchanges around the world. The rules of their acquisition are taught in business schools, and their mergers and acquisitions are typically handled by investment banking firms.

These companies have the objective of maximizing shareholder value. They are characterized as follows:

Earnings	Measured in millions, after tax
P/E Ratios	Typically more than 10 times earnings, often much higher depending on new technology or products
Terms of Sale	Cash or equivalents (stock, warrants, etc.)
Management	Professional, many layers

Mid-Market - These are typically substantial, privately held companies often earning profits in the millions of dollars. Comparisons to public companies for sales purposes, however, are misleading. Private companies do not actively trade their stock which factors into the market value.

Earnings	\$500K to millions (various EBITs)
P/E Ratios	3 to 10 times earnings
Terms of Sale	Cash, Sellers Note and/or Third Party Financing
Management	Structured, owner involvement varies

Small - These businesses may vary from situations where the owners play the central management and employee roles, to companies that demonstrate consistency in earnings and have solid organizational structures. In most small businesses, owner involvement in the day-to-day management is typical. Small businesses are the backbone of the economy and the marketplace for their sale is active. The greatest obstacle to the successful sale of these businesses is overcoming the buyer's perception of risk.

Earnings	Generally less than \$500K (EBIT). Expressed as Discretionary Earnings (DE), which is defined as the money the business generates when the owner's desire to reduce taxes is eliminated by reconstructing the financial statements
P/E Ratios	1 to 4 times DE
Terms of Sale	Cash, down payment may vary from 20% - 50%, Sellers Note and/or Third Party Financing
Management	Owner a major element in company's operation

VR has been supplying Valued Representation to small- and mid-market companies since 1979. Our international organization takes pride in affording to these firms the Valued Representation typically available to Public companies, but impossible to secure as a small- or mid-market enterprise. Thus, the reason why "VR has sold more businesses in the world than anyone."[®]



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PREPARING TO SELL

Valued Representation through VR.

Selling your business is one of the most important transactions you'll ever undertake. You owe it to yourself, your family and your employees to approach this sale with the same careful planning and dedication that you put to work in building your business. Valued Representation throughout the sales process allows you to operate your company while VR confidentially brings it to market.

At VR, we know that there are no shortcuts to success. No easy answers. No such thing as luck. We know that selling a

business to a qualified buyer at the best price is hard work. We are dedicated to presenting the value of our client's business while at the same time positioning the business to be a success for the new owners.

When you work with VR, you're working with the only international network of fulltime professional business intermediaries in the world.

VR Business Profile

One of the most important tools for positioning your company for sale is a VR Business Profile. This document typically includes a detailed description of your business, industry trends and forecasts, extensive comparable sales information and financial data. This professionally written report allows a qualified prospective buyer to review, in presentation format, an extensive overview of your business.

The VR Business Profile will present your business in the most beneficial manner, communicating its past performance and income generating features, and presenting the maximum value. It is inevitable that every business owner will one day exit his or her business. Understanding the value of your business, and knowing how to interpret that value are paramount in making the correct decisions to create maximum results when selling. Realizing the fair market value of your business will also aid in understanding available options, profiling your personal needs and setting realistic goals.

VR provides client companies with winning representation that differentiates your business from the others. You can depend on us for professional service.

Valuation

Each business is different, and therefore demands an approach that focuses on its unique characteristics. Valuation is as much art as science, yet valuation of a business is also a highly technical process. The ability to decide which valuation methodology is most suited to a company's needs, and apply it to get an accurate picture of value, requires skill and experience.

VR professionals take into consideration the company's background, including its history, ownership, management and physical facilities. An industry analysis includes structure, background and opportunity, along with current conditions. Economic conditions and outlooks are taken into consideration as well as the changes in demographic breakdown as it relates to the product or service.

Whether an income, market, or asset based valuation approach is taken, knowing you are working with professionals throughout the valuation process is important. Properly valued businesses set realistic expectations for sellers and allow for proper succession planning.



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IDENTIFYING QUALIFIED BUYERS

Ready, willing and able.

The first step in placing a value on your business is identifying the appropriate buyer. The range in values that different buyers may be willing to pay for a business can vary on the reason for acquisition. Buyers pay for opportunity! The buyer who perceives the greatest opportunity is the buyer willing to pay the most for your business.

Identifying the “Right Buyer” requires understanding the four main classifications of organizations or individuals who are looking to acquire a business.

Strategic Buyer

These are usually the most qualified. They almost always pay cash and buy at a premium. Typically, the Strategic Buyer is interested in acquiring a publicly traded or very large private company. Their decision to buy usually revolves around considerations of economies of scale, new channels of distribution, new technologies and other integration considerations. To be attractive to a Strategic Buyer, your company should fit most, if not all, of the following criteria:

- Sales in excess of \$10 million
- Proprietary product or process
- Unique market presence
- Synergistic fit with the buyer
- Suitable management willing to stay

At VR, we use our expertise to analyze your business and work to identify key features that are attractive to the Strategic Buyer.

Sophisticated Buyer

This group of buyers emerged as a force when “merger mania” ended and buyers began to recognize the opportunities in the private sector. There are two distinct types of sophisticated acquirers. Their acquisition criteria are as follows:

Private Equity Groups

- Revenues from \$10 million upwards to \$100 million
- Earnings of at least \$1 million
- Investment of considerable cash or equity
- Pay 3 to 10 times EBITDA

High Net Worth Individuals

- Revenues from \$2 million upwards to \$20 million
- Expect 6 figure future earnings
- Look to leverage a part of the purchase
- Expect the seller to finance part of the acquisition
- Pay 3 to 7 times EBITDA

Sophisticated Buyers sometime acquire companies smaller than the outlined criteria if the opportunity has favorable growth potential.

Cash Flow Buyer

By far the largest group of buyers are for businesses valued at less than \$2 million. These buyers tend to focus solely on present and past earnings and will not typically pay a price based on future earnings. The cash flow buyer will consider a price fair if the transaction meets the following criteria:

- Living wage typically commensurate with the initial investment
- Modest return on the cash investment
- P/E ratios of 1 to 4 times Discretionary Earnings
- Seller and/or third party financing
- Good fit with their skills and the opportunity to improve cash flow

Industry Buyer

The difference between this category of buyer and all others is the value of goodwill. That is, Industry Buyers won't pay for it and are usually looking to acquire a company where the owner or the company itself is in some form of distress. The Industry Buyer typically will pay:

- Liquidation value
- Book value
- Adjusted book value

All too often business owners who are attempting to sell their business on their own end up dealing with an Industry Buyer.



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PLAN AHEAD. GETTING READY TO SELL

Increasing value without increasing profits.

Can you increase the value of your business without increasing its profits? Ask your accountant or other financial professional and chances are they will draw a blank. Or they will answer “no.” But the truth is that you can, and the concept of how you do it is astoundingly simple. You increase the value of your business when you take the appropriate steps to attract the appropriate buyer.

To achieve the best end result, smart business owners approach the selling process with the same planning and discipline that they use in the day to day operation of their business. The following is an overview of the winning strategy you will need to follow to get the most out of your business sale.

These simple steps will increase the value of your business

Plan Ahead.

Smart business owners know that their business will either transfer or close. There is no alternative. Your company is a product. It will be treated as a prize to be won or as a piece of distressed merchandise to be acquired at a bargain price. How a business is treated can often be traced back to the timeliness and appropriateness of the owner's decision to sell.

Take stock of your business.

You must step back and take a long objective look at your business. Without objectivity, your business cannot be packaged to attract the most advantageous buyer and command the highest price.

Position your company to sell.

A good definition of positioning is, “it's not what you see that counts, but how you see it.” Buyers are looking for opportunity. Often this means stepping in to correct problems so that future profits can be gained. It is just as important to know what's wrong with your company as it is to know what's right.

Identify the right buyer.

If your company could benefit from strong marketing, then you should include in your potential buyer profile significant strength in that area. If your company lacks customer service, then someone with special skills in that area would be a good candidate. Remember, not all buyers will pay the same amount for your business.

Set realistic price and terms.

This doesn't mean you should accept less than your company is worth. But it does mean that unless you can confidently defend the price and terms you set, you will lose the confidence of the buyer and your sale price will suffer.

Refine your organization.

You should take steps to ensure that your business does not depend upon you for its survival and success. The highest quality buyers are seeking a company to manage and don't want to buy businesses when they see the current owner as indispensable.

Prepare your financial records.

Comprehensive, professionally recasted financial records are a must if you want to attract buyers willing to pay a premium for your business. Well-maintained records present you as a savvy owner and your business as professionally operated. Solid financial records greatly reduce the buyer's perception of risk.

Review your lease.

Lease issues and landlords can represent one of the biggest “deal killers.” Your lease provides you with a “license” to operate a business in a particular location. Without a lease, your business may be of no value to a buyer. Take the time to review your lease. It should provide for assignment and should be valid for a minimum of three years. If it's not, renegotiate it before you start the sales process.

Obtain a valuation.

One of the most valuable tools at your disposal is a credible, business valuation that supports your asking price. Buyers are much more likely to pay top dollar for a business when documented evidence can be provided that supports the price they are willing to pay. Most non-owner sources of financing are insisting on a business valuation before they will even consider funding.

Prepare a business profile.

You must provide information beyond the financial statements. Buying a business isn't just a simple mathematical exercise involving the “numbers.” Smart buyers want more. They want customer concentrations, industry outlook, marketplace forecast, future influences from technology, industry margin comparisons, operating ratios analysis, stability of tenancy and much more. A comprehensive business profile that includes this type of information will greatly enhance your business's prospects of selling.

Valued Representation.

Selling a business isn't a “do it yourself” project. You should assemble your team early on. You will need marketplace, legal and tax assistance. This typically means a team comprised of your business intermediary, attorney and tax accountant. Valued Representation through VR provides you with the resources and experience to present your business in its most favorable light.



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RECASTING FINANCIAL STATEMENTS

How the buyer should see it.

Small- and mid-market businesses, in contrast to public and large private corporations, tend to keep reported net income and taxes as low as possible. Recasting of financial statements is a critical tool in presenting the real earnings history of a business to potential buyers. Presenting the recasted earnings history for the prior three years would take into consideration, and may eliminate, expenses that are avoidable, unusual or nonrecurring. Benefits and

salaries would be adjusted to market standards giving the potential buyer a clearer picture of the financial position of the company.

What are necessary expenses? Rent, probably. Supplies, almost certainly. Payroll, surprisingly only sometimes. Deciding what is a necessary expense and what is not simply requires some thought and honesty.

The best way to explain how the process works is to show you specific examples. Examine the Income Statement of our fictitious company we call PrivCo.

The column labeled "Actual" shows what the business owner chose to show as PrivCo's Income Statement (P&L). Based upon Net Income of \$930.9K, PrivCo lost \$31.2K for the year. But does this accurately reflect the business being offered for sale? If it did, the chances of selling this business would be greatly diminished. Businesses are bought because, in most cases, they make money.

Therefore, let us recast the financial statements to show a prospective qualified buyer an accurate overview of the business:

- (1) We'll subtract \$9.9K from Other Income because this money was interest earned on the owner's cash account. The cash account will not transfer with the business.
- (2) We're taking \$17.5K out of Production Labor. The owner paid this amount to his daughter and it's more than another worker would have been paid to do the same job.
- (3) We'll reduce the Inventory by \$400. The owner calculated inventory at the higher figure for tax purposes.
- (4) The owner's trip to Hawaii for the Widget conference wasn't really necessary (it coincided with his wife's birthday). We're reducing Travel & Entertainment by \$5.1K.
- (5) The owner's compensation of \$155K will be used in its entirety by the new owner. It belongs to the new owner and we'll put it in the "Recast" column.
- (6) The owner's wife was paid \$12.5K more than a competent office manager would demand. We'll reduce Office Wages by that same amount.

PRIVCO				
Example of Income Statement Adjustments				
(All \$'s in thousands)	Actual	Adjustment	Recast	Notes
Sales	921.0	0	921.0	
Other Income	9.9	(9.9)	0	(1)
Net Income	930.9	(9.9)	921.0	
Cost of Sales				
Inventory (begin)	53.2	0	53.2	
Purchases	153.0	0	153.0	
Production Labor	255.1	(17.5)	237.6	(2)
Outside Services	81.2	0	81.2	
Supplies	38.5	0	38.5	
	581.0	(17.5)	563.5	
Less Inventory (ending)	55.1	(.4)	54.7	(3)
Total Cost of Sales	525.9	(17.1)	508.8	
Gross Profit	405.0	7.2	412.2	
Expenses:				
Advertising	31.1	0	31.1	
Travel & Entertainment	7.2	(5.1)	2.1	(4)
Officer's Salary	155.0	(155.0)	0	(5)
Office Wages	67.9	(12.5)	55.4	(6)
Interest Expense	3.5	(1.5)	2.0	(7)
Telephone & Internet	8.2	0	8.2	
Professional fees	3.5	0	3.5	
Dues & Subscriptions	1.8	0	1.8	
Office Expense	16.6	0	16.6	
Utilities	47.5	0	47.5	
Insurance	44.4	(3.2)	41.2	(8)
Depreciation	5.2	(5.2)	0.0	(9)
Taxes	37.5	(17.5)	20.0	(10)
Repair & Maintenance	6.8	0	6.8	
Total	436.2	(200.0)	236.2	
Profit/(Loss)	(31.20)		176.0	

(7) Interest paid is an expense that may or may not be part of the new owners' expenses (what if the new owner pays cash for everything?). Accordingly, we will take out the Interest expense of \$1.5K.

(8) We've taken \$3.2K out of Insurance because it represents the owner's personal life insurance policy.

(9) Depreciation is a non-cash item. It is always placed in the Recast column, so we're moving this \$5.2K. Remember, though, that the tangible assets being depreciated must be priced at Fair Market Value, not at purchase price.

Of course, many buyers will allocate for a reserve for replacement.

(10) Taxes were reduced by \$17.5K because this is the amount paid on the excess compensation paid to the owner, his daughter and his wife.

This is an example of how Recasting is formulated. We've changed the way the potential buyer will look at this business and we've portrayed accurately the business's ability to generate cash. Instead of losing \$31.2K, the business now shows a profit of \$176.0K. That's a \$207.2K positive change.

Entrepreneurs invest time, effort and personal capital into their business. By taking risks, working hard and personal sacrifice, they build what may become their largest asset. However, few ever take the time to decide how to properly exit ownership and transition into life's next opportunity. By choosing Valued Representation through VR Business Sales, or VR Mergers & Acquisitions, you have decided to team with the world leader in the sales of small- and mid-sized privately held businesses.



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